

## **Self-Insurance Group Requirements**

The Office of Self-Insurance Plans (OSIP) authorizes qualified employers to provide their own coverage for workers' compensation liabilities. Small and medium-sized businesses have the option of joining with other employers in the same industry to self-insure their workers' compensation liability as a group. All Self-Insurance Groups (SIGs) must be approved by OSIP and are required to post a security deposit based on an annually submitted Actuarial Study and Summary.

California has one of the largest self-insurance programs in the nation and has some of the strongest regulations designed to ensure the system protects both employers and employees. As of January 2018, the state had a total of 23 active SIGs.

Recent recommended improvements to SIG regulations were approved which included shortened reporting timeframes, more detailed financial reporting requirements and prospective analysis of financial stability.

### **SIG Funding Requirements**

CCR § 15484(e) stipulates that each group self-insurer shall demonstrate sufficient income from annual member contributions and/or assessments to fund:

- (1) One and one half (1.5) times the group self-insurer's most recent three-year average paid indemnity and medical claims expenses as reported on their current year filed Self-Insurer's Annual Report;
- (2) The expected administrative and operating expenses needed to meet the group self-insurer's day to day financial obligations during the current calendar year;
- (3) The continued posting of the required security deposit; and
- (4) Any additional amount determined by the Chief, upon a showing of good cause, to ensure adequate funding of the group self-insurer.

### **Annual Independent Audits**

Each year, California SIGs are required to conduct a financial audit performed by an independent Certified Public Accountant. The audit is sent to OSIP for review. Since the legislation allowing for the creation of SIGs, DIR has always managed SIGs and other self-insured workers' compensation programs.

### **Security Deposits for Each SIG**

California requires that each SIG post and maintain a security deposit with the Director upon approval of its Certificate

of Consent to Self-Insure. The security deposit amount shall be in accordance with the provisions of California Code of Regulation, Title 8, Section 15496, and the Self-Insurer's Actuarial Study and Summary, and no less than determined pursuant to Labor Code Section 3701.

The security deposit may be increased at the discretion of the Director or Chief of OSIP and is calculated as the undiscounted expected actuarial confidence level including each of the following components deposit.

- Incurred but not reported (IBNR) liabilities,
- Allocated loss adjustment expense (ALAE),
- Unallocated loss adjusted expense (ULAE) net of specific excess insurance coverage.

### **Excess Insurance**

California requires that all SIGs maintain excess insurance to pay for the cost of any individual claim that exceeds \$500,000. This requires the SIG to limit its exposure to large losses on any individual claim; adding an increased level of protection against catastrophic risks that could occur.

### **Self-Insurers' Security Fund**

The California State Legislature created the Self-Insurers' Security Fund (SISF) in 1984. SISF exists to cover the claims of any self-insured employer, including a SIG, in the event of the entity's default (similar to the function of the California Insurance Guarantee Association for insurance companies). The SISF provides employees covered by California SIGs with an extra level of protection that is not available in most other states.

### **Firewalls**

Under current regulations, DIR and Group Administrators have, collectively, inserted firewalls between the vendors and the SIG preventing some conflicts and requiring the disclosure of other conflicts of interest between vendors and the SIG to SIG members. These additions make California SIGs stronger and less susceptible to the conflicts of interest that have led to some of the problems SIG's have encountered in other states.

**WARNING:** - CCR §15484 is ONLY intended to establish a minimum regulatory funding level for the current period. It DOES NOT address fully funding all loss exposures, prospective losses for the coming year, ALAE, ULEA, and any other funding requirements of the program.

NOTHING IN THE REGULATION SHOULD BE CONSTRUED IN ANY MANNER TO RELIEVE A SIG'S BOARD OF TRUSTEES, ADMINISTRATOR OR PROFESSIONAL ADVISORS FROM FULFILLING THEIR FIDUCIARY AND LEGAL RESPONSIBILITY TO PROPERLY ANALYZE THE PROPER FULL FUNDING LEVELS REQUIRED TO INSURE THE LONG-TERM SOLVENCY AND FISCAL HEALTH FOR THEIR INDIVIDUAL GROUP PROGRAMS.

**RELIANCE ON THIS REGULATION SHOULD NOT BE VIEWED AS A SAFE HARBOR.**